

Message Text

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ACTION H-02

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TAGS: OREP (MEISSNER)

SUBJECT: ANSWERS TO QUESTIONS RAISED IN US BERLIN 0150

DEPARTMENT PASS HOLT AND LEVINSON, COMMITTEE ON FOREIGN
RELATIONS

PLEASE REPEAT APPROPRIATE POST FOR STAFFDEL BLUM/
LISSAKER

REF: USBERLIN 0150

FOLLOWING ANSWERS ARE KEYED TO PARAS IN REFTEL.

1A. LAST ITALIAN LOAN ON EUROMARKET WAS APRIL 1974 FOR
\$1.2 BILLION TO MEDIOBANCA, A QUASI-GOVERNMENTAL INSTITUTION.
TERMS WERE SEVEN YEARS AT 3/4 PERCENT ABOVE LONDON INTERBANK
RATE. IT IS FELT HERE THAT ITALY CAN NO LONGER BORROW IN
THE MEDIUM-TERM EURODOLLAR MARKET, ESPECIALLY AT REASONABLE
RATES. THIS CONDITION IS EXPECTED TO LAST INTO THE
FORESEEABLE FUTURE.

1B. BANKING CENTER OF ITALY IN MILAN, NOT ROME. I HAVE
HAD NO PERSONAL AMERICAN BANK INTERVIEWS. REPORTING OF
TREASURY ATTACHE INDICATES THAT PRIVATE U.S. BANKS BELIEVE
THAT ITALY IS A HIGH CREDIT RISK. IN SUMMER OF 1974 IT WAS
RUMORED THAT U.S. COMPTROLLER OF CURRENCY OFFICE WAS
CLASSIFYING ITALIAN LOANS AS RELATIVELY HIGH RISK.
COMPTROLLER HEDGED AN ANSWER. FEDERAL RESERVE HAS LET IT
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BE KNOWN THAT U.S. BANKS SHOULD RETRENCH IN GENERAL, INCLUD-

ING FOREIGN OPERATIONS. FEDERAL RESERVE APPARENTLY FEELS THERE IS TOO MUCH EXPANSION OF FOREIGN LENDING OPERATIONS AND EXCESSIVELY HIGH LOAN CAPITAL RATIOS.

1C. FIRST CONDITIONS WERE FUND CONDITIONS WHICH WERE IMPOSED IN SPRING 1974. INITIALLY THE EC LOAN WAS 90-DAY SHORT-TERM CREDIT EXTENDED ON MARCH 18, 1974. IT WAS ROLLED OVER ON JUNE 18 AND SEPTEMBER 18. ON DECEMBER 18, 1974, IT WAS CONVERTED TO MEDIUM-TERM AT WHICH TIME CONDITIONS WERE PLACED ON ITALY. THE FUND STANDBY ENDS MARCH 31, 1975. FUND STANDBYS ARE NORMALLY REPAYED IN THREE YEARS. EC CONDITIONS SET LIMITS ON BANK CREDIT EXPANSION, LIMITS ON GROWTH OF CENTRAL GOVERNMENT EXPENDITURES AND ON TREASURY CASH DEFICIT, AMONG OTHER THINGS. THIS IS SPELLED OUT IN COMMISSION OF EUROPEAN COMMUNITIES DOCUMENT COM(74) 1893 FINAL, BRUSSELS, NOVEMBER 14, 1974, TITLED "ACTION TO BE TAKEN BY ITALY AS A CONDITION OF RECEIVING THE MEDIUM-TERM LOAN (UNCLASSIFIED)." THE RESTRICTIONS PLACED BY THE IMF IN SPRING 1974 HAVE HAD MUCH GREATER POLITICAL IMPLICATIONS THAN THE NOVEMBER 14 EC CONDITIONS ON THE MEDIUM-TERM LOAN. IT IS FELT HERE THAT THE DEBATE OVER ECONOMIC POLICY ASSOCIATED WITH THE ACCEPTANCE OF THE IMF TERMS CAUSED THE GOVERNMENT TO FALL IN MARCH 1974. THE GOVERNMENT WAS A FOUR PARTY COALITION WITH REPUBLICANS HOLDING TREASURY POST, TOP ECONOMIC POSITION. REPUBLICANS ARGUED THAT ANTI-INFLATION CONSTRAINTS HAD TO BE PLACED ON THE ECONOMY, I.E., FUND CONDITIONS, WHILE SOCIALISTS SAID THAT IT SHOULDN'T BE WORKERS WHO SUFFER. REPUBLICANS PULLED OUT OF GOVERNMENT, CAUSING IT TO FALL. REALITIES OF POOR BALANCE OF PAYMENTS FIGURES IN SPRING 1974 FORCED SOCIALISTS TO RECOGNIZE NECESSITY OF ANTI-INFLATIONARY APPROACH. NEW GOVERNMENT WAS QUICKLY FORMED AND IMF CONDITIONS WERE IMPLEMENTED. IMF DOCUMENTS AVAILABLE IN WASHINGTON. ORIGINAL DOCUMENT ISSUED IN MARCH 1974 WITH MAJOR UPDATE IN AUGUST 1974.

1D. ITALY HAD A STRUCTURAL PROBLEM IN INFLATION AND BALANCE OF PAYMENTS BEFORE THE OIL CRISIS OWING MAINLY TO EXCESSIVE WAGE INCREASES FROM 1969 ON AND INCREASED WORLD FOOD AND INDUSTRIAL RAW MATERIAL PRICES. THE OIL PRICE INCREASE WAS THE COUP DE GRACE. THE UNDERLYING PROBLEM OF WAGE COSTS LIMITED OFFICIAL USE

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HAS NOT REALLY BEEN SOLVED. THE DECLINE IN WORLD PRICES HAS HELPED. THE BALANCE OF PAYMENT SITUATION HAS SIGNIFICANTLY IMPROVED AND SOME PROGRESS HAS BEEN MADE ON DAMPENING PRICE INCREASES, BUT THIS HAS BEEN AT THE EXPENSE OF ECONOMIC GROWTH AND EMPLOYMENT. THIS IS NOT A LONG-RUN SOLUTION.

1E AND 2. ITALIANS ARE NOT CONTEMPLATING ANY DEBT ROLL-OVERS AT PRESENT. SCHEDULE OF ITALIAN DEBT IN THE NEXT FOUR

YEARS IS ROUGHLY AS FOLLOWS (INCLUDING PRINCIPAL AND
INTEREST):

1975	\$3.1 BILLION
1976	\$4.6 BILLION
1977	\$2.3 BILLION
1978	\$4.5 BILLION

3. CHARLES PEARLMAN FROM THE SECURITIES EXCHANGE COMMISSION
OUT OF NEW YORK AND BURTON RAIMI OF THE FDIC HAVE BEEN
IN ROME AND MILAN FOR THE LAST TEN DAYS WORKING ON THE SINDONA
LINK TO FRANKLIN NATIONAL BANK. THEY WILL BE LEAVING SHORTLY
FOR THE STATES AND WOULD BE MORE THAN HAPPY TO TALK TO US IN THE
STATES. BOTH MENTIONED THAT THE SENATE BANKING AND CURRENCY
COMMITTEE ARE PLANNING HEARINGS ON SINDONA/FRANKLIN.
PLEASE CHECK THIS. VOLPE

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